

Message Text

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PAGE 01 LONDON 15906 01 OF 02 051824Z

46

ACTION TRSE-00

INFO OCT-01 AF-04 EUR-12 EA-06 ISO-00 AID-05 CIAE-00

COME-00 EB-07 FRB-01 INR-05 NSAE-00 RSC-01 XMB-02

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6290

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY PRETORIA

AMEMBASSY ROME

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LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 15906

DEPARTMENT ALSO PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: GOLD SALES BY U.S. TREASURY; UK MARKET COMMENTS

REF: STATE 265855; PRETORIA 5211

SUMMARY: ROBERT GUY, ASSISTANT DIRECTOR, N.M. ROTHSCHILD, WHO IS PERSONALLY IN CHARGE OF THE TWICE-DAILY GOLD FIXING IN LONDON CONSIDERS U.S. GOLD SALES WILL CUT SPECULATIVE INTEREST AT LEAST IN THE SHORT RUN. END SUMMARY.

1. ROBERT GUY, ASSISTANT DIRECTOR, N.M. ROTHSCHILD, MANAGER OF THE TWICE-DAILY GOLD FIXING IN LONDON THAT TAKES LIMITED OFFICIAL USE

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PAGE 02 LONDON 15906 01 OF 02 051824Z

PLACE AT ROTHSCHILD WITH REPRESENTATIVES OF THE FOUR OTHER

MAJOR GOLD TRADING HOUSES (MOCATTA AND GOLDSMID; SHARPS PIXLEY; SAMUEL MONTAGU; AND JOHNSON MATTHEY) OFFERED HIS COMMENTS ON GOLD SALES BY U.S. TREASURY TO FINATT AND VISITING GAO OFFICIALS LAMOTTE AND BREW. GUY BELIEVED THE SALE WOULD CUT SPECULATIVE INTEREST IN THE SHORT RUN BUT CONSIDERED THERE IS PROBABLY A GREATER INTEREST IN GOLD IN THE U.S. THAN U.S. TREASURY THINKS. MARKET HAS NOT FULLY ASSESSED ALL RAMIFICATIONS OF THE SALE. THE MARKET IS A HIGHLY SPECULATIVE ONE. INCREASES IN THE PRICE BENEFIT SOUTH AFRICA AND THE USSR AND ARE A REFLECTION OF LACK OF CONFIDENCE IN PAPER CURRENCY. THE MARKET TENDS TO SHOW SHARP RISES IN PRICE, BECOMES OVERBOUGHT, AND THEN SUFFERS DECLINES. THERE WILL BE SHARP UPS AND DOWNS IN THE FUTURE AND PAST HISTORY IS UNLIKELY TO BE A REASONABLE GUIDE.

2. PRIOR TO SECRETARY SIMON'S ANNOUNCEMENT, AT THE PRICE OF \$185 PER OUNCE, GUY'S VIEW WAS THAT PERHAPS \$15 TO \$20 OF THE PRICE WAS ANTICIPATORY, I.E., BASED ON THE EXPECTED IMPACT OF DEMAND FROM U.S. RESIDENTS FROM DECEMBER 31 ONWARDS; OTHER BULLION BROKERS CONSIDERED AS MUCH AS \$30 OF THE PRICE REFLECTED ANTICIPATORY DEMAND. LOOKING AHEAD, THE EFFECT OF THE U.S. TREASURY SALES WILL DEPEND ON THE TREASURY STRATEGY. WILL IT DECIDE TO FEED A RISING MARKET OR PUSH DOWN A FALLING ONE? GUY SAID THE TREASURY MOVE WAS "TOTALLY LOGICAL" BUT HE CONSIDERED THAT EXTERNAL EVENTS ELSEWHERE WILL ALSO CONTINUE TO HAVE A VISIBLE EFFECT ON THE MARKET.

3. THE PROFESSIONAL LONDON MARKET FIXERS WERE SURPRISED WITH THE ALACRITY WITH WHICH THE TREASURY MOVED, BOTH IN ALLOWING U.S. RESIDENTS TO PURCHASE GOLD AND IN ANNOUNCING ITS OWN GOLD SALE. MARKET OPERATORS IN EUROPE CONSIDER THAT UP TO 10 TO 15 PERCENT OF THE MARKET COULD SHIFT TO THE U.S. THEY DOUBT THAT THE U.S. COULD CONTROL THE MARKET EVEN IF IT WISHED TO. ON THE OTHER HAND, U.S. INVOLVEMENT WILL ADD SOPHISTICATION TO THE FUTURES END OF THE MARKET.

4. THE IMPACT OF ALLOWING U.S. RESIDENTS TO PURCHASE GOLD LIMITED OFFICIAL USE

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PAGE 03 LONDON 15906 01 OF 02 051824Z

AND THE U.S. GOLD SALES MUST BE VIEWED IN A LARGER CONTEXT INCLUDING POSSIBLE SOUTH AFRICAN COUNTERMOVES TO REDUCE SUPPLY. EUROPEAN FIRMS THAT ARE IN THE WHOLESALE GOLD MARKET "FIVE IN THE U.K., THREE LARGE ONES IN SWITZERLAND, AND THE DEUTSCHE AND DRESDNER BANKS IN GERMANY" WILL CERTAINLY SEEK TO EXPAND THEIR OPERATIONS IN THE U.S. ROTHSCHILD WILL SUBMIT BIDS ON THE U.S. TREASURY GOLD SALE, JUST AS IT DID ON SILVER. IT HAS NO CHOICE AND MUST BE

INVOLVED.

5. GUY THOUGHT THERE WAS A PROBABILITY THAT GOVERNMENTS WITH HEAVY CASH HOLDINGS AND SOME MULTINATIONAL CORPORATIONS MIGHT ALSO WISH TO BID FOR THE GOLD, AS WOULD WEALTHY INDIVIDUAL ARABS. HE DID NOT BELIEVE THAT EITHER THE GERMAN OR THE FRENCH CENTRAL BANKS COULD BE INDUCED TO SELL THEIR OWN GOLD HOLDINGS ON THE MARKET. THE SOVIETS USUALLY MANAGE TO MAKE THEIR SALES IN A RISING MARKET THEY HOLD OFF, WATCH FOR SHARP INCREASES, THEN SELL ON THE CREST.

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PAGE 01 LONDON 15906 02 OF 02 051824Z

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LIMITED OFFICIAL USE SECTION 02 OF 02 LONDON 15906

6. GUY SAID HE UNDERSTOOD THAT SOUTH AFRICA WAS CURRENTLY PRODUCING 75,000 KRUGER RAND A DAY (NOTE THIS DIFFERS FROM PARA 4, PRETORIA 5211) AND HAD PLANS TO INCREASE DAILY PRODUCTION TO 150,000 PER DAY BY MARCH 1975, LARGELY TO MEET EXPECTED DEMAND FROM THE UNITED STATES. GIVEN WORLD INFLATIONARY TRENDS, GUY DID NOT BELIEVE THAT ANY EVENT COULD SEVERELY AFFECT THE GOLD PRICE ON THE DOWN SIDE. ADMITTING THAT THERE WAS AN ELEMENT OF UNCERTAINTY INVOLVED, HE DID NOT BELIEVE THE PRICE WOULD FALL MUCH BELOW \$170 NOR DID HE BELIEVE THAT IT WOULD RISE RAPIDLY IN THE NEAR FUTURE. (AFTER FALLING TO \$170.50 ON DECEMBER 4 MORNING FIXING ON THE NEWS OF THE ANNOUNCEMENT, LIMITED OFFICIAL USE

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PAGE 02 LONDON 15906 02 OF 02 051824Z

THE PRICE HAS INCREASED TO \$178.50 ON THE AFTERNOON FIXING THURSDAY DECEMBER 5, ON HEAVY VOLUME.)

7. COMMENT: GUY'S VIEWS ARE BIASED, BUT VERY KNOWLEDGEABLE. THROUGHOUT THE CONVERSATION, HE STRESSED THAT THE GOLD MARKET IS A HIGHLY SPECULATIVE ONE AND POINTED OUT THAT AS A WHOLESALE BROKER, HIS INTEREST IS IN VOLUME AS WELL AS VALUE, I.E., HIS FIRM MAKES A PROFIT IN BOTH A RISING AND A FALLING MARKET.

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